Central Engineering Services (Private) Ltd - 2021

1. Financial Statements

1.1 Qualified Opinion

The audit of the financial statements of the Central Engineering Services (Private) Ltd Company for the year ended 31 December 2021 comprising the statement of financial position as at 31 December 2021 and the statement of comprehensive income, statement of changes in equity and cash flow statement for the year then ended, and notes to the financial statements, including a summary of significant accounting policies, was carried out under my direction in pursuance of provisions in Article 154(1) of the Constitution of the Democratic Socialist Republic of Sri Lanka read in conjunction with provisions of the National Audit Act No. 19 of 2018. My comments and observations which I consider should be report to Parliament appear in this report.

In my opinion, except for the effects of the matters described in paragraph 1.5 of this report, the accompanying financial statements give a true and fair view of the financial position of the Company as at 31 December 2021, and of its financial performance and its cash flows for the year then ended in accordance with Sri Lanka Accounting Standards.

1.2 Basis for Qualified Opinion

My opinion is qualified on the matters described in paragraph 1.5 of this report.

I conducted my audit in accordance with Sri Lanka Auditing Standards (SLAuSs). My responsibilities, under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of my report. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my qualified opinion.

1.3 Responsibilities of Management and Those Charged with Governance for the Financial Statements

Management is responsible for the preparation of financial statements that give a true and fair view in accordance with Sri Lanka Accounting Standards, and for such internal control as management determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intend to liquidate the Company or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Company's financial reporting process.

As per Section 16(1) of the National Audit Act No. 19 of 2018, the Company is required to maintain proper books and records of all its income, expenditure, assets and liabilities, to enable annual and periodic financial statements to be prepared of the Company.

1.4 Audit Scope

My objective is to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes my opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Sri Lanka Auditing Standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with Sri Lanka Auditing Standards, I exercise professional judgment and maintain professional skepticism throughout the audit. I also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for my opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the management.

- Conclude on the appropriateness of the management's use of the going concern basis of accounting and based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If I conclude that a material uncertainty exists, I am required to draw attention in my auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify my opinion. My conclusions are based on the audit evidence obtained up to the date of my auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

The scope of the audit also extended to examine as far as possible and as far as necessary the following;

- Whether the organization, systems, procedures, books, records and other documents have been properly and adequately designed from the point of view of the presentation of information to enable a continuous evaluation of the activities of the Company, and whether such systems, procedures, books, records and other documents are in effective operation;

- Whether the Company has complied with applicable written law, or other general or special directions issued by the governing body of the Company*;*

- Whether the Company has performed according to its powers, functions and duties; and

- Whether the resources of the Company had been procured and utilized economically, efficiently and effectively within the time frames and in compliance with the applicable laws.

1.5 Audit Observations on the preparation of Financial Statements

1.5.1 Non-Compliance with Sri Lanka Accounting Standard

Non Compliance with the reference to particular Standard	Management Comment	Recommendation
(a) Credit balances of debtors and debit balances of mobilization advances aggregating Rs.183.04 million and Rs. 38.04 million respectively had been offset against the debit and credit balances of such accounts in 36 instances in contrary to paragraph 32 of **Sri Lanka Accounting Standard (LKAS) 1 - Presentation of Financial Statements.** As a result, the current assets and current liabilities had been understated by similar amounts.	The credit balances of debtors were mainly arisen due to recording of cash received from the client as credit balance in debtor summary and over payments from customers. Debit balances of mobilization advances arisen due to over recovery of mobilization advances and recovery made from different projects mistakenly. Those will be rectified.	Actions need to be taken to correct the debtor balances and mobilization advance balances by making proper accounting treatments on credit balances and debit balances respectively.
(b) According to Note No. 2.3.6 to the financial statements, it was stated that the Company reviews the estimated useful lives of Property, Plant and Equipment (PPE) annually. However, fully depreciated assets approximately costing Rs.429.78 million representing 30 per cent of the total assets are being continuously used by the Company without reassessing the useful economical lifetime of those assets as per the provisions in paragraph 51 of *LKAS 16 - Property, Plant and Equipment* and rectifying the estimation error and showing the accurate carrying value in the financial statements as per the *LKAS 8 - Accounting Policies, Changes in Accounting Estimates and Errors.*	As per standard, we are applying cost model for initial and subsequent recognition of property, plant & equipment. Therefore, revaluation model is not applying by the Company and record at cost. However, as per the LKAS 16 we have disclosed the details of fully depreciated assets held at 31 December 2021.	The Company should reassess the useful economic lifetime of fully depreciated assets as per the provisions in the LKAS 16 and estimation error should be rectified as per the LKAS 8.

1.5.2 Accounting Deficiencies

	Audit Issue	Management Comment	Recommendation
(a)	The opening Works-in-Progress (WIP) amounting to Rs. 105,091,340 shown under the inventory of the Company had been reversed during the year under review as completed and billed amount in the year 2021. However, it was observed that an amount of Rs.24,833,281 included thereof had not been completed and billed even up to the end of the year under review, and as such the disclosure made in Note 2.6 to the financial statements is totally incorrect.	Two projects (BD-444 and BD – 531) have temporary suspended due to the clients do not settle the invoices outstanding. There are several discussions and follow up action has been taken in this regard.	Actions need to be taken to correct the financial statements accordingly.
(b)	During the test audit inspection carried out with regard to physical inventory verification conducted in 03 project sites and Battaramulla (WP-1 Base) main stores, it was revealed that there were stock shortages of Rs.11.77 million and stock excess of Rs.1.5 million as at 31 December 2021. Meanwhile, the fixed assets items costing to Rs. 1,042,413 was also included to the inventories of WP-1 Base of the Company. However, the Company had not made adjustments to the inventory to rectify the above matters including other material shortcomings reported by the stock verification committees. Further, the Company had not properly coded its inventory items and those codes were not included to the ERP system as enable to identify and carry out the annual inventory verification accordingly. In view of the above, the accuracy of the inventory amounting to Rs. 1,027.02 million shown as at 31 December 2021 could not be ascertained in audit.	**Stock Shortages & Excess-** These were arisen due to not timely updating the ERP System. **Items of fixed assets nature included -** Those materials were transferred via stores management module of ERP system as stock items since the Company's ERP System classified them as stock items.	Actions need to be taken to improve internal controls over inventory management in order to minimize stock shortages and excesses. Further, system parameters need to be upgraded to classify items accurately in ERP system.
(c)	Internal transactions between the sub-units of the Bases should be eliminated when preparing the Company's financial statements. However, the balances of Rs.116, 860,830 and Rs. 2,596,405 had been included in the Company's creditors	The elimination of internal creditor and debtor transactions become difficult at the time of accounts preparing due to difficulty in separate identification of	Actions need to be taken to properly identify the eliminated item on timely basis.

and debtor's schedules as payable and receivable respectively from the Company itself without being so eliminated.	balances at the peak time period. Anyway the corrective actions will take with the current year onwards.	
(d) According to the statements of financial position, the cash in transit as at 31 December 2021 was Rs. 186,124,863 and the Company has informed to audit that this amount consists 06 cheques issued by the parent Company (i.e Central Engineering Consultancy Bureau) on 31 December 2021 in order to settle the outstanding debtor balances as at 31 December 2021. However, the actual value of those 06 cheques issued was Rs.197,852,894. Hence, a difference of Rs. 11,748,930 was observed between the value of the cheques issued by the parent company and the amount recognized in the accounts. Further, these cheques were deposited during the month of January 2021. Meanwhile, a further difference of Rs.20,900 was observed between the amounts shown in the detailed schedule and in the financial statements with regard to above cash in transit balance as at the reporting date.	The difference in the actual values and the amount recognized is the account of Cash in Transit were exactly the amounts of VAT component of the cheque receipt for both Sabaragamuwa and Katubedda Base Offices.	All Base Offices need to follow the same method in recording transactions and actions need to be taken to correct the financial statements accordingly.

1.5.3 Unreconciled Control Accounts or Records

Item	As per Financial Statements Rs.	As per corresponding Record Rs.	Difference Rs.	Management Comment	Recommendation
(a) Property, Plant and Equipment (PPE)	98,416,134	81,348,131	17,068,002	It is due to mistakenly write off different categories of fixed asset which are not in line with the respective fixed asset code.	Actions need to be taken to correct the financial statements accordingly.
(b) Amount Due to Related Companies	210,826,071	207,239,037	3,587,034	The difference arises due to the loan receipt update difference.	

(c)Trade Receivable	1,653,804,990	1,643,727,470	10,077,520	The identify balances with the parent company reconcile is in progress. The necessary actions taken place for avoid arising the differences in future.	Actions need to be taken to reconcile the differences in order to avoid future misunderstandings.
(d)Retention Receivable	2,078,338,828	2,010,467,225	67,871,603		
(e)obilization Advance Payable	3,345,272,654	3,320,415,563	24,857,091		

1.5.4 Documentary Evidences not made available for Audit

Item	Amount	Evidence not available	Management Comment	Recommendation
	Rs. million			
(a)Trade Debtors	3,553.87	Balance Confirmation, Certified Bills for Rs. 2,353.87 million and supporting documents for Rs. 550 million (Anuradhapura Base)	Company makes significant effort to collect outstanding from our clients. As per the guidance from Chairman and CEO all bases engage in the collection of outstanding by appointing special committee as well. During the current year Company had received more than 3.5 Bn without VAT receipts from our debtors as debtor recovery. Anuradhapura base had 26 ongoing projects with this situation. We have completed and hand over 15 projects. Other 11 projects are ongoing and it will have completed with the readjusted work program. Investigations are being conducted by the CESL.	Effective actions should be taken to recover the outstanding balances without further delay and further, effective and strong internal control system needs to be introduced in order to minimize future frauds.
(b) Amount Due to Related Company (Anuradhapura & Polonnaruwa)	21.97	Detailed schedules and supporting documents	No comment	It is required to provide acceptable supporting documents to verify the transactions occurred between different bases.

1.6 Accounts Receivable and Payable

1.6.1 Receivables

Audit Issue	Management Comment	Recommendation
(a) As per the statements of financial position as at 31 December 2021, the total debtor balance is Rs. 3,553.87 million and out of which Rs. 506.14 million and Rs. 10.85 million had remained outstanding for more than 03 years and 05 years respectively. Meanwhile, the Company had failed to provide the information regarding the subsequent recovery of the above outstanding debtor balances. It was further observed that the debtors aggregating Rs.220.39 million relating to completed projects was also unrecovered for a longer period as at the reporting date.	Most of the debtors remaining more than 3 years, subject to the STC's approvals. Currently supervision of the Head Office each Base Office continually follow and initiate the process of completing the approval obtaining process from the STC. As per the advice of the chairman we send the outstanding and debt collection letters to each clients in past month periods as well. According to that we initiative and continually follow to recover our long outstanding debtors.	Effective actions should be taken to recover the outstanding balances without further delay.
(b) Retention receivable as at 31 December 2021 was amounting to Rs. 3,062.45 million. Out of that a sum of Rs. 101.47 and Rs. 132.71 million relating to completed projects were remained outstanding from 3 to 5 years and over 5 years respectively without being taken proper recovery actions by the responsible officers.	Mainly, our clients are government Ministries, Departments and other State-Owned Enterprises. Due to the adverse economic condition prevailed in the country; there is a delay in receiving retention money.	Effective action should be taken to recover the outstanding balances without any delay.

1.6.2 Payables

Audit Issue	Management Comment	Recommendation
Creditors and retention payables as at 31 December 2021 were amounting to Rs.1, 913.82 million and Rs. 717.58 million respectively. According to the age analysis provided for audit, the creditors amounting to Rs. 526.47 million and retention payables amounting to Rs. 308.88 million shown under current liabilities had remained in the accounts from 2 to 5 years without being settled.	Our suppliers are giving less than 1-year credit periods in most of the times. Hence, all the creditors are initially considered as current liabilities with the intention of settling within one year. We have to pay those suppliers with the receipts from Clients. But there is inherent delay in receiving the funds form our clients.	Action should be taken to get settle all possible long outstanding creditors' balances without delay and to treat others as income.

1.6.3 Advances

Audit Issue	Management Comment	Recommendation
According to Guideline 5.4.4 (iii) of the Procurement Guidelines, the mobilization advances received shall be fully settled before the project works reached to 90 per cent complete level. Nevertheless, such advances received amounting to Rs.104.55 million with regard to fully completed and 90 per cent completed construction projects of 04 Base Offices of the Company had remained in the accounts as at 31 December 2021 without being settled. It was further observed that the total mobilization advances payable as at 31 December 2021 was Rs. 5,205.81 million and out of that, a sum of Rs.3, 345.2 million had been received from Government and Semi Government organization during the previous years for various construction works and a sum of Rs. 1,049.04 million so received is being continuously utilized by the Company for over 03 years without being settled them to the respective Government Agencies even as at 31 May 2022.	The unsettled mobilization advance of over 90% completed projects in account is noted. The necessary actions will be taken to fully settle the mobilization advances in current financial year of the 90% completed projects. The unsettled mobilization advance remains over 3 years mainly due to undertaking projects balances and the bills pending certification by clients. We take necessary actions to send the final bills to the clients and get certification bills from the clients.	Actions should be taken to get certified the bill as soon as possible and settle the advances accordingly.

1.7 Related Party Transactions

Audit Issue	Management Comment	Recommendation
The Company was shown a balance of Rs. 1,431.24 million as payable to the parent Company i.e. Central Engineering Consultancy Bureau (CECB) as at 31 December 2021 and this amount included vehicle hiring charges, temporary loans, value of fixed assets and stock etc. which obtained from parent company in time to time. It was noted that this balance continuously increased year by year without being taken fruitful action to clear this balance. In addition to that a capital contribution of Rs. 10 million was received from the parent company during the year 2011 in order to commence the	Intercompany current account balances have increased due to adverse condition prevailed in the country which badly affects to the cash flow of the projects. Further, the Company is in the process of reviewing long outstanding balances to identify a way of capitalizing the balance negotiation with CECB by a way of issue of shares. Hence, it is urgent to capitalize those balances to run the Company smoothly and currently it is under processing stage.	Actions should be taken to have a clear agreement between the Company and the Parent Company and to control the continuous increase of related party payable balance.

business operation of this Company. Nevertheless, no return on these investments had been computed and paid to the parent company since the inception of the Company.

1.8 Non-compliance with Laws, Rules, Regulations and Management Decisions etc.

Reference to Laws, Rules Regulations etc.	Non-compliance	Management Comment	Recommendation
Public Enterprises Circular No. PED/12 of 02 June 2003.			
(a) Paragraph 9.3.1	No Scheme of Recruitments and Promotions (SOR) had been prepared and approved by the Company even up to 31 May 2022.	SOR and Promotion has been finalized and submitted to the Management Services Department (MSD) through the line Ministry after obtaining the approval of the Board of Directors.	Actions need to be taken to obtain required approval for Scheme of Recruitments and Promotions.
(b) Paragraph 4.2.5	It is required to present the inventory age analysis to the Board meeting on monthly basis for their review and discussions. However, the Company ERP system is not facilitates to generate an inventory aging reports. As a result, the Company is facing difficulties in identifying slow moving, non-moving and obsolete stock items based on the inventory aging.	The ERP system is currently developing the report form for identify the stock moving status under the slow moving, non-moving and obsolete items. Based on that we will able to provide the report to Board after completing the report form in ERP system.	Action to be taken to upgrade the system parameters to generate the inventory aging report from existing ERP system itself to verify the accuracy, existence and completeness of inventory as at reporting date.

2. Financial Review

2.1 Financial Result

The operating result of the year under review amounted to a profit of Rs. 138.91 million and the corresponding loss in the preceding year amounted to Rs. 62.45 million. Therefore, an improvement amounting to Rs. 201.36 million of the financial result was observed. The reasons for the improvement are increase of construction revenue by 24% and decrease of administration expenses by 4% as compared to the previous accounting period.

2.2 Trend Analysis of major Income and Expenditure items

Analysis of major income and expenditure items of the year under review compared with the preceding year with the percentage of increase or decrease are shown below.

Description	For the year ended 31 December 2021	For the year ended 31 December 2020	Variance {Favorable/ (Adverse)}	Percentage
	Rs. Mn.	Rs. Mn.	Rs. Mn.	(%)
Construction Revenue	8,298.4	6,694.1	1,604.3	24
Selling and Distribution Expenses	10.32	0.13	(10.19)	7838
Asphalt Loss	60.7	16.8	(43.9)	261
Finance Income	128.7	148.0	(19.3)	13
Finance Cost	12.7	15.2	(2.5)	16

The following observations are also made.

(a) The attention of the management to be paid to increase main revenue source of construction income as well as the increasing finance income by efficiently utilizing financial resources of the Company.

(b) The management should give high attention to mitigate the operating loss of Asphalt/Crusher Plant.

(c) Made an additional provision for bad and doubtful debts by the Anuradhapura Base is the reason for increasing the selling and distribution cost.

2.3 Ratio Analysis

According to the information made available, some important accounting ratios of the Company for the year under review and the preceding years are given below.

Ratios	2021	2020	2019
Profitability Ratios			
Gross Profit Ratio (GP) (%)	10.13	9.29	7.05
Operating Profit Ratio (%)	1.67	-0.9	0.53
Return on Assets (ROA) (%)	1.95	0.56	1.63
Liquidity Ratios			
Current Assets Ratio (Number of times)	1: 1.2	1:1.2	1:1.2
Quick Assets Ratio (Number of times)	1:1.1	1:1.1	1:1.1

The Company had earned a pre-tax net profit of Rs.254.92 million during the year under review by utilizing its total assets base of Rs. 13,033.91 million Hence, the return on total assets was only 1.95 per cent (2020 – 0.56 per cent). Further, this was far below as compared with generally accepted ratio in the similar industry.

3. Operational Review

3.1 Management Inefficiencies

Audit Issue	Management Comment	Recommendation
(a) According to the information provided for audit, the Company has sustained a gross loss of Rs.888.15 million, Rs. 973.3 million and Rs. 722.8 million by the end of the years 2021, 2020 and 2019 respectively from its completed construction projects. Further, a loss of Rs.327.52 million was reported from 45 on -going projects of the year under review. Details are shown below.	**<u>Reasons for completed project Loss</u>** - Due to delay of the project duration, project OH and material cost were increased. - Increase of material prices than budgeted - Using lower rates in quoting process to success the bids **<u>Reasons for loss incurred by ongoing projects</u>** - Due to delay of the project duration, project OH and material cost were increased. - Using lower rates in quoting process to success the bids	The Company should take effective measures to mitigate the losses from construction projects.

(i) **Projects completed with significant losses**

Name of the Base Office	**Number of Projects**			**Project Loss**		
	2021	2020	2019	2021	2020	2019
------------	------	------	------	--------	-------	-------
				Rs. Mn.	**Rs. Mn.**	**Rs. Mn.**
South East	13	-	6	267.19	-	45.9
WP2	5	5	8	11.97	7.6	13.6
WP1	-	-	4	-	-	6.2
Central	6	14	6	9.18	41.1	22.2
North	2	1	1	34.14	32.8	29.7
Sabaragamuwa	1	-	1	13.36	-	1.8
South	21	21	15	170.79	176	169.2
Uva	11	5	2	128.24	30.8	8.6
North Central – Anuradapura	30	84	72	185.91	406	315.3
MKDP – Polannaruwa	11	54	35	47.7	279	110.3
Eastern	-	-	-	-	-	-
North west	3	-	-	19.67	-	-
	-----	------	------	-------	-------	------
	103	**184**	**150**	**888.15**	**973.3**	**722.8**

-STC rates are very lower than the market rates and it will lead to project losses

-Increase of material prices than budgeted.

ii) Loss incurred by ongoing projects

Name of the Base Office	Number of Projects	Reported Loss as at 31 December 2021
------------------	----------------	------------------------
		Rs. Mn.
Central	13	36.93
East	6	80.58
Sabaragamuwa	1	6.15
South	1	7.86
WP-1	1	10.25
North-West	1	5.7
WP-2	9	95.03
UVA	13	85.02
	-----	-------
	45	**327.52**

The following observations are also made in this regard.

(i) The management should take effective measures to mitigate these losses by identifying the reasons and the persons who are responsible for these losses, as this may directly affect to the going concern of the Company.	The number of loss projects reduced by 81 in the 2021 financial year. Although in 2020 the Company had recorded 184 projects as loss, due to close continuous attention and supervision of the management the company able to reduce the loss projects to 103 in the financial year 2021. Same as currently management continually engage to monitor the projects progress via regular updates.	The Company should take effective measures to mitigate the losses from construction projects.
(ii) Out of the above 103 fully completed projects, 86 projects or 83 per cent were completed with the total operational loss of Rs.799.83 million in 05 Bases of the Company namely the North-central (Anuradhapura), MKDP (Polannaruwa), South, South-east and Uva Base Offices.	Currently, the management continuously takes progressive actions to overcome the loss occurring from the Base Offices.	The Company should take effective measures to mitigate the losses from construction projects.
(iii) The Company is unable to complete most of the projects on the agreed contract period. At the test audit check it was revealed that there was a considerable delay in completing the project works by the Sabaragamuwa Base of the Company ranging between	These projects were carried out during 2017-2018 period. During this period the cash flow of the above projects were badly effected due to the non-	The Company should take effective actions to complete projects within the agreed

69 days to 436 days. This will also lead to increase the cost of construction and loss of the projects.	settlement of payment from the client. At the same time, I like to draw your attention this area is having average rainfall 400 mm -600mm per month, and both district are impacted heavy rain almost throughout the year (more than 10 month for year). Adverse weather impact for both districts in difference ways Floods, Landslides, etc. This is having huge impact for the construction and can be caused to delay of construction period.	time period as much as possible.
(b) It was further observed that the Base Offices namely Polonnaruwa, COE- North West, Head Office and Anuradhapura of the Company were running at a total net loss of Rs.41.65 million as at the end of the year under review. Meanwhile, the Anuradhapura and Polonnaruwa Base Offices have sustained a gross loss of Rs. 12.13 million and Rs.12.64 million respectively as at 31 December 2021.	**-Polonnaruwa & Anuradhapura** As per the direct supervision of the higher management, currently several steps taken to overcome the losses in current financial year - **Head Office** Considering the all factors head office receives the revenue for cater it expenses and further as per the audit observation will consider to overcome any loss arise in future. - **North West** The Company had to face net loss in 2021 mainly due to the unexpected cost increases on Covid 19 Pandemic situation.	The management of the Company should pay attention to utilize its financial, human and other physical resources efficiently in order to mitigate the operating losses of the Company.
(c) The Company has operated 05 Asphalt/Crusher Plant in its 05 Base offices located in Ampara, Anuradapura, Polonnaruwa, Badulla, and Kothmale. However, only one plant of Ampara (Eastern) Base amounting to Rs.20.08 million had been included in the fixed assets as of 31 December 2021 and it was reported to audit that the value of the remaining 04 plants were included in the fixed assets of its parent company. But, only 03 plants amounting to Rs. 83.95 million were included in the fixed assets of the parent company. Hence, the value of one plant belonging to Badulla Base had not been brought to the accounts. In the	All the asphalt/ crusher plants transfer to the Polonnaruwa section due to the below mention reasons. •To establish the separate unit with specialized technical team for operate and maintain the crusher plants. •Provide specialized facilities to cater the overall demand.	The management of the Company should pay its attention to operate the Asphalt/Crusher Plant in a profitable manner.

meantime, the plant in Polonnaruwa only had performed business operations during the year under review and reported a total loss of Rs.60,753,937 as at the end of the reporting period. It was further observed that 04 Asphalt/Crusher Plant out of above 05 plants had remained in idled without being utilized throughout the year under review.	Due to reduce of constructions activities, lack of material supply directly affected to kept the plant idle in time period. But all the plants are currently well maintained and ready for supply the available capacity any given time.

3.2 Operational Inefficiencies

Audit Issue	Management Comment	Recommendation
The Company had not properly coded its fixed assets and those codes were not included in the fixed asset register in order to identify and carry out the annual asset verification of the PPE costing Rs. 1,429.56 million shown in the financial statements as at 31 December 2021. It was further noted that the prevailing ERP system does not have the facility to correctly trace the movement of assets. As a result, when Base Offices move their assets on the requests of the work sites it could not be traced and generate internal cost bill for the asset usage.	At present, the Company has developed a new coding system using ERP system. The company is in the process of reconciling all the assets fully. The ERP team has currently developed the Asset Management Module for operate asset based transaction separately. The modules are operated in each Base Offices under the supervision of the asset manager.	Proper coding system is needed when developing the ERP system and to ensure the accurate and adequate controls over PPE. Further, actions need to be taken to evaluate the performance of asset management module and make the improvements by addressing the present issues of the system.

3.3 Transactions of Contentious Nature

Audit Issue	Management Comment	Recommendation
(a) The balances due from customers and due to customers as at 31 December 2021 were amounting to Rs. 1,496.22 million and 2,506.08 million respectively. However, once the projects works undertaken by the Company are completed there should not be the due from customers or due to customers. However, such balances aggregating to Rs.267.75 million with regard to 63 completed projects were still in the accounts without being cleared from the books of accounts as at	We will implement the proper billing system and rectify this issue from the current financial year of the respective two bases.	Effective and proper work plan should be introduced without further delay to clear these long outstanding balances with regard to completed projects and to make proper adjustments in the accounts by preparing an age analysis.

the reporting period.		
(b) Although, all the Value Added Tax (VAT) payments are made by the Head Office of the Company on cash basis, the accrual concept is being used for accounting of those VAT payments. As a result, a difference of Rs. 330.83 million was observed between the transections recorded on cash basis and accrual basis. Further, the Company had not maintained a monthly reconciliation process to reconcile this discrepancy.	This happened due to two different methods we used to do VAT payment and record VAT in general ledger. We are in the process of developing a schedule via ERP system to show the reconciliation between cash basis and accrual basis balance. At present it is difficult to reconcile manually due to large number of transactions available in the ledger.	Attention to be paid to reconcile the ledgers balances with schedules before preparing the financial statements.
(c) The Company has recruited 23 employees for the posts which are not in the approved Cadre while 26 employees had recruited exceeding the approved cadre. It was further observed, there is a difference of 10 employees between the number of employees released to the Company by the parent Company and the number of employees shown in the schedules submitted to the audit by the Company. However, reasons for the difference had not explained to the audit.	An updated cadre has been sent to the MSD through the line Ministry for cadre approval on 12.01.2022. Accordingly, necessary arraignments are made to get the approval from the MSD.	Actions need to be taken to approve the amended cadre and reconcile the difference.

3.4 Idle or Under Utilized Property, Plant and Equipment

Audit Issue	Management Comment	Recommendation
According to the available information, the Company has obtained a land belongs to the Urban Development Authority (UDA) located in Rathnapura District for a 30 years lease period during the year 2019 by paying Rs.15,425,266. Although the Company has shown this land as Right-of-use Assets, the Company had not completed signing process of the lease agreement even up to the date of this report. Further, this property had not been utilized for any economic purpose even after lapsed of 03 years.	There is a delay from Urban Development Authority to Complete the lease agreement, although we have fulfilled the all requirement as the lessee and we have sent several reminders regarding the lease agreement. But Urban Development Authority was not able to issue the aforesaid lease agreement and they have made their confirmation about the delay.	The lease agreement or any other documentary evidence should be made available for audit to ascertain the value and ownership of the leasehold property.

3.5 Procurement Management

Audit Issue	Management Comment	Recommendation
At the test audit check carried out on the procurement activities of the WP-2 Base of the Company, it was revealed that the Company had not procured the goods and services in financially and qualitatively viable manner to obtain most advantageous and better services to the Company due to the following reasons.		
(i) Failure to grant the minimum required bidding time period to the bidders in 4 instances for the procurements worth Rs. 15,542,729 as per the Guideline 6.2.2 of Government Procurement Guidelines.	Clause 8C of the Delegation of Financial Authority of the Company, stipulates that all procurements could be defined under the "Shopping category", as specified under Clause 6.2.2 of the Government Procurement Guideline. Hence, it could be deemed that the mentioned procurements/purchases indicated as Audit query were not in violation of the National Procurement Guideline.	It is required to get required approval when deviating the Guidelines in Government Procurement Guidelines.
(ii) Considerable variations were observed between the engineer's estimates and the prices quoted by suppliers in 3 instances with regard to the procurements worth Rs.3,263,270.	These significant variances arise due to, - omission of overhead costs, labor component and other peripheral aspects, thereby resulting in an erroneous deduction - The BOQ rates were based on 2016 which did not account to the escalation of prices in the market.	Actions need to be taken to prepare the engineer estimate by including all associated costs and should identify cost of procurement preparedness activities and post contract award activities separately.
(iii) Purchase orders have been issued by giving open status for longer period and no agreements have been signed with the supplier.	Once the purchase order is rejected by the Procurement Engineer (PE), those are categorized under "Verified – Rejected" PO; and if the PO is cancelled upon being approved by the PE, such PO then categorized as an "Invalidated" PO. In both the above cases, the	Once the PO is cancelled, necessary actions need to be taken immediately to cancel the purchase order accordingly. Since the PO is

	impending successive PO approved by the PE does not acquire the PO number generated for the preceding.	legal binding document.
(iv) Considerable amount of cement bags had been procured by the individual Bases of the Company without adhered with the centralized procurement system. As a result, a loss of Rs. 2,400,894 had been sustained by the Company only in 04 instances.	The Company arrange to procure the cement via the centralized procurement method (CPM) providing the constant cement rate for difference districts to certain time period. Some instances suppliers unable to provide the orders on time due to the stock shortages, difficulties in transport arrangements, etc. under that situations, the management of the Company provide approvals to procure the cements from available suppliers to cater the demand in our construction sites for reduce the delays occurring to construction works. In that situations adverse price variations may apply than the agreed price establishment with the CPM. Anyway the loss occurred from deviation from CPM, recover from undertaking the activities without delays due to material shortages.	Management should take necessary actions to minimize the purchases in deviating the centralized procurement method and should take the maximum benefit from this CPM method.

4. Accountability and Good Governance

4.1 Annual Report

Audit Issue	**Management Comment**	**Recommendation**
The Annual Reports of the Company for the year 2020 had not been tabled in Parliament even up to the date of this report**.**	The annual reports of the company for the years 2019 & 2020 submitted to the parliament on 21.07.2022	Actions need to be taken to table the annual report for the year 2020 immediately**.**